The Federal Reserve (Fed) held interest rates steady Wednesday, with nine out of ten committee members voting to maintain the federal funds rate in a range between 2.25% and 2.50%

Fed Chairman Jerome Powell hinted that future rate cuts were possible and the committee “will act as appropriate to sustain the [economic] expansion”

Market expectations are for a 25bps interest rate cut at July’s Fed meeting and the implied probability of a 50bps cut is currently 36%

Following the Fed’s comments, yields on the 10-year Treasury dropped sharply and continued lower to close at 2.02%

Investment-grade corporate supply was muted ahead of the Fed decision, as issuers priced approximately $8 billion week-to-date, well below estimates of $15 to $20 billion

Moderated new issue supply combined with investors’ risk-on tone to move corporate spreads 3bps tighter to close at 123bps

Investment-grade corporate bonds extended month-to-date excess returns, with industrials leading the way, as the Fed’s accommodative statement relieved concerns for trade tensions to slow the US economy

Increased mortgage prepayments – a potential result of declining rates – worried investors, and mortgage-backed securities underperformed week-over-week

Municipals trailed the recent rally in Treasuries, and the 10-year muni/Treasury ratio rose above 81% – the highest level since the record low of 72% in March

Sources: Bloomberg Barclays, Bloomberg, and Bloomberg Index Services Limited

Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research & Management. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, “Barclays”), used under license. Bloomberg or Bloomberg’s licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.